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Jamaica & Dep

Sugar

Annual

2004

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Report Highlights:

Jamaica's production of 96-degree sugar is expected to increase to 195,000 MT during 2003/04. Imports of raw and refined sugar are projected at 20,000 MT and 70,000 MT.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Kingston [JM1]
[JM]

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Executive Summary

While significantly below the industry's viability target, Jamaica's production of 96-degree sugar is expected to rebound from a historic low during the 2003/04 sugar cane crop. During the 2001/02 and 2002/03 sugar cane crops output of 96-degree sugar fell to historic lows of 174,000 and 152,000 metric tons (MT) respectively. The 2003/04 crop is expected to produce approximately 195,000 MT of 96-degree sugar. The improved performance of the current crop is expected to be influenced almost entirely by improvements in the quality of sugar cane supplied to the factories.

Since the development of the five-year sugar industry plan in 1999, the divergence between the actual output and the minimum industry viability target continues to widen over successive years. Several factors will continue to negatively impact sugar production, viz: unavailability of replanting loan, high production costs, inefficient factory operations, low yields, poor cane quality, heavy debt burden, poor infrastructure, and high levels of illicit cane fires.

Over the last five years, sugar consumption has been relatively stable at approximately 124,000 MT per year. As the sugar industry continues sub-optimal performance Jamaica will fulfill a significant proportion of its domestic demand from imported raw sugar. During the 2002/03 sugar cane crop Jamaica exported 128,629 MT, while imports of raw sugar increased from 16,336 MT to 35,110 MT. During the same period, refined sugar imports inched up by 3 percent from 66,000 to 68,000 MT. Total importation of raw sugar for the 2003/04 crop is projected at 20,000 MT.

Jamaica's five-year sugar industry policy, which is currently in its final year of implementation, has not produced any meaningful accomplishments and is widely regarded by sugar industry interest as a failed initiative.

Production

Statistical Data

| Jamaica & Dep Sugar Cane for Centrifugal | | | | | | | |
|---|------------------------|---------------------------|------------------------|---------------------------|------------------------|---------------------------|-----------|
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 12/2001 | | 12/2002 | | 12/2003 | MM/YYYY |
| Area Planted | 38 | 38 | 39 | 39 | 39 | 39 | (1000 HA) |
| Area Harvested | 34 | 34 | 35 | 35 | 35 | 35 | (1000 HA) |
| Production | 1965 | 1965 | 1907 | 1955 | 1980 | 2106 | (1000 MT) |
| TOTAL SUPPLY | 1965 | 1965 | 1907 | 1955 | 1980 | 2106 | (1000 MT) |
| Utilization for Sugar | 1965 | 1965 | 1907 | 1955 | 1980 | 2106 | (1000 MT) |
| Utilizatn for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL UTILIZATION | 1965 | 1965 | 1907 | 1955 | 1980 | 2106 | (1000 MT) |

| Jamaica & Dep Centrifugal Sugar | | | | | | | |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 12/2001 | | 12/2002 | | 12/2003 | MM/YYYY |
| Beginning Stocks | 15 | 15 | 8 | 8 | 3 | 6 | (1000 MT) |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Cane Sugar Production | 175 | 175 | 170 | 152 | 180 | 195 | (1000 MT) |
| TOTAL Sugar Production | 175 | 175 | 170 | 152 | 180 | 195 | (1000 MT) |
| Raw Imports | 16 | 16 | 22 | 35 | 18 | 20 | (1000 MT) |
| Refined Imp.(Raw Val) | 68 | 68 | 69 | 68 | 70 | 68 | (1000 MT) |
| TOTAL Imports | 84 | 84 | 91 | 103 | 88 | 88 | (1000 MT) |
| TOTAL SUPPLY | 274 | 274 | 269 | 263 | 271 | 289 | (1000 MT) |
| Raw Exports | 138 | 138 | 138 | 129 | 138 | 156 | (1000 MT) |
| Refined Exp.(Raw Val) | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL EXPORTS | 138 | 138 | 138 | 129 | 138 | 156 | (1000 MT) |
| Human Dom. Consumption | 128 | 128 | 128 | 124 | 128 | 128 | (1000 MT) |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Disappearance | 128 | 128 | 128 | 128 | 128 | 128 | (1000 MT) |
| Ending Stocks | 8 | 8 | 3 | 6 | 5 | 5 | (1000 MT) |
| TOTAL DISTRIBUTION | 274 | 274 | 269 | 263 | 271 | 289 | (1000 MT) |

As of April 5, 2004, the 2003/2004 sugar cane crop was 120 days (about midway) in harvest and had produced 127,004 metric tons (MT) of 96-degree sugar from 1,357,313 MT of sugar cane at a tons cane per ton (TC/TS) ratio of 10.69:1. Relative to the corresponding period of the 2002/03 sugar cane crop, these indices represent a 23 percent increase in 96-degree sugar production, a 10 percent increase in sugar cane ground, and an improvement in the TC/TS ratio from 11.2:1 to 10.69. The current crop is expected to perform superior to the 2002/03 and 2001/02 sugar crops, which recorded the lowest sugar productions in more than fifty years. When compared with the first 118 days of the 2000/2001 crop, the indices of the current crop represent an 8 percent increase in sugar cane ground, a 6 percent increase in 96-degree sugar production, and similar sugar cane quality as reflected by an almost identical TC/TS ratio. Given that acreage harvested and average yield have shown only slight variations within the neighborhood of 37,000 hectare and 59 MT/hectare (MT/Ha) over the last three years, the expected improvement in 96-degree sugar production during the 2003/2004 crop will be influenced almost entirely by improved sugar cane quality. Accounting for losses due to illicit cane fires, and assuming the absence of industrial actions and continued favorable weather conditions, the 2003/04 sugar cane crop is projected to produce approximately 195,000 MT of 96-degree sugar from 2,106,000 MT of sugar cane at a TC/TS ratio of 10.8:1. Though substantially lower than the industry's viability target of 311,000 MT per crop, the expected 195,000 MT of raw sugar during 2003/04 will reflect a substantial improvement over the two previous crops.

Despite extensive financial support by the Government of Jamaica (GOJ), output from the sugar industry is sustained at sub-optimal levels. The performance of the 2002/03 sugar cane crop was equally disappointing as the 2001/02 crop. During the 2001/02 crop, 96-degree sugar and sugar cane production plummeted by 14.59 and 11.89 percent to a 55-year low of 174,000 MT and 1,965,470 MT, respectively. During the 2002/03 sugar cane crop, output of 96-degree sugar and sugar cane declined by a further 13 and 10 percent to new historic lows of 152,537 MT and 1,776,095 MT, respectively. The TC/TS ratio also worsened during the 2002/03 crop from 11.21:1 to 11.64:1. The decline in sugar production during 2002/03 was due to a combination of lower sugar cane quality and reduced sugar cane production. The decline in sugar cane production resulted primarily from the low levels of replanting, which typically falls 50 percent short of the industry's 16.9 percent target. Within the Jamaican sugar industry, the difference in yield between sugar cane fields at first ratoon (year 2) and old fields (year 4 and over) is approximately 20 MT per hectare on average. The low levels of replanting during 2001/02 and 2002/03 resulted principally from delays in the replanting loan program and unfavorable weather conditions. Cane quality was affected by weather conditions, harvesting techniques, and excessive time laps between harvesting and grinding which affected sucrose extraction.

Since the development of the five-year sugar industry plan in 1999, the divergence between the actual output and the minimum industry viability output continues to widen over successive years. Over the last three crops (2000/2001 – 2002/2003) total annual sugar production fell 35, 44 and 51 percent short of the industry's 311,000 viability target. Sugar industry experts are pessimistic about the future of the Jamaican sugar industry as a viable producer of raw and refined sugar. Several factors will continue to negatively impact sugar production, viz: unavailability of replanting loans, high production costs, inefficient factory operations, low yields, poor cane quality, heavy debt burden, poor infrastructure, and high levels of illicit cane fires.

Crop Area

The area under sugarcane cultivation varies from year to year within a narrow range of 40,000 to 46,000 hectares, of which 82 to 93 percent is usually harvested. For the current crop, approximately 39,000 hectares of land is estimated to be under sugarcane cultivation, of which 37,000 hectares is expected to be harvested. Farmers and estates are expected to account for 16,000 and 21,000 hectares, respectively. Replanting costs, which vary between US\$1,313 and US\$2,013 per hectare, and poor administration of the cane replanting loan program will restrict replanting efforts. Total hectare under ratoon (two years and over) is therefore expected to remain high.

Current production cost of US\$650 per MT and average yield of 58 MT/Ha more than justify the need to replant with higher yielding sugar cane varieties. The Sugar Industry Research Institute continues to research and commercialize higher yielding cane varieties.

Crop Quality

Sugar cane quality, as measured by the Jamaica Recoverable Cane Sugar (JRCS) and the TC/TS ratio, declined during the 2002/2003 sugar crop. The reduced quality of the 2002/2003 crop is attributed to unfavorable weather conditions, poor harvesting techniques, inappropriate agronomic practices on private farms, illicit cane fires which affected harvesting schedules, and excessive time between harvesting and milling.

Consumption

Since the 1990's, Jamaica's annual sugar consumption ranged between 118,000 MT and 137,000 MT. Over the last five years, sugar consumption has been relatively stable at approximately 124,000 MT per year. While total sugar consumption is expected to remain stable over the medium-term, consumption of refined sugar, which is used mostly for manufacturing purposes, is projected to grow proportionately with carbonated beverages and pastry production. Production of carbonated beverages, which utilizes most of the approximately 60,000 MT of refined sugar imported into Jamaica each year, is projected to increase by 2 to 3 percent per year over the next three years. It is estimated that the manufacturing sector has an annual demand of 45,000 to 50,000 MT of refined sugar.

During 2003, the Jamaica Cane Product Sale (JCPS), the sole legal supplier of refined sugar to the retail market, sold 442 MT of refined sugar on the retail market and 5,000 MT to processors. An additional 66,000 MT of refined sugar is estimated to have been imported and consumed in the manufacturing sector. During the same period, the JCPS sold 17,541 MT of local and 35,369 MT of imported raw sugar on the local market. Total consumption of refined and raw sugar in Jamaica during 2003 was estimated at 71,442 MT and 52,910 MT, bringing over-all consumption to 124,352 MT. Artificial sweeteners are used only by a small proportion of the population, mostly for health reasons. The relative stability of sugar prices has helped to retain current consumption levels.

Trade

Jamaica continues to satisfy its export quota allocation from domestic production, while importing raw and refined sugar to meet domestic demands. The European Union's quota remains at 127,000 MT with an additional 24,000 MT under the Special Preferential Sugar (SPS) arrangement. The U.S. tariff rate quota of 11,580 MT is prized by the Jamaica's sugar industry. In some instances the Certificate of Quota Eligibility can be exchanged instead of delivering sugar.

During the 2002/03 sugar cane crop Jamaica exported 128,629 MT of raw sugar valued at 134,340,986 Euro, a 7 percent decline in quantity exported relative to the previous crop. Of the total export, 124,302 MT was shipped under the EU protocol and an additional 4,275 under the SPS arrangement. The remaining 52 MT was exported to "other" destination. No shipment was recorded under the USTRQ for the 2002/03 sugar crop. The low production output from the 2002/03 sugar crop was insufficient to fulfill Jamaica's total quota allocation and domestic demands.

In order to fulfill domestic demands, Jamaica had to more than double its imports of raw sugar from 16,336 MT during 2001/02 to 35,110 MT during 2002/03. Given the expected increase in sugar production for the current crop, total importation of raw sugar is projected to decline during 2003/04 to approximately 20,000 MT. As the sugar industry continues sub-optimal performance, raw sugar imports is expected to fluctuate between 17,000 and 38,000 MT per year over the medium-term.

Jamaica satisfies its demand for refined sugar from imports. The demand for refined sugar will be heavily influenced by the growth in food manufacturing, particularly the carbonated beverages and baking industries. Since the deregulation of the refined sugar import policy, Jamaica imports refined sugar from over seventeen countries. The United States is the main supplier of refined sugar to Jamaica, accounting for approximately 42 percent of total imports. Other major players include Columbia, the UK, Guatemala, Mexico and Brazil. Total annual imports of refined sugar have remained within the proximity of 68,000 MT over

the last three years. During 2002/03 refined sugar imports inched up 3 percent from 66,000 MT to 68,000 MT. Total importation of refined sugar is projected at 70,000 MT for 2003/04.

Stocks

The liberalization of refined sugar importation allows the Jamaica Cane Product Sales (JCPS), private brokers and manufacturers to import and hold stocks of refined sugar. The JCPS still retains a monopoly on the raw sugar market. All imports and exports of raw sugar are conducted by the JCPS. As of October 31, 2002 the JCPS held 2,000 MT of raw sugar in stock. With the deregulation of refined sugar imports and increasing storage cost, independent importers do not hold significant stocks of refined sugar for any extended period.

Policy

Faced with very high production costs, low productivity and a generally inefficient sugar industry, the GOJ and other sugar industry interests crafted a major sugar industry policy in 1999 to bring the ailing sugar industry to more competitive levels. The objectives of the policy addressed investment priorities, operational efficiencies, and established minimum productivity parameters. Now in its final year of implementation, the master plan has failed to deliver any meaningful accomplishments, and has unanimously been accepted by sugar industry officials as a failed and unrealistic initiative. The current policy document calls for the production of 311,000 MT of 96-degree sugar from 3,155,000 MT of sugar cane at a TC/TS ratio of 10.14. Acreage harvested and average yield were established in the policy at 42,000 hectares and 75 MT/Ha.

In an effort to preserve the sugar industry, mostly on the basis of its social and historic importance, the GOJ is currently exploring the possibility of cogeneration and alcohol production as diversified output from the industry. Three of Jamaica's sugar factories (Frome, Monymusk and Bernard Lodge) have been identified in the current policy document, which gives an exploratory account of cogeneration, as having the potential to generate 30 to 50 mw of power from bagasse. However, the general performance of the policy signals the need to accept this projection with great caution.

The GOJ has amended its 1994 liberalization policy for the importation of refined sugar. Prior to 1994, the JCPS, the central marketing agency for the sugar industry, maintained monopoly power in the importation and distribution of refined sugar. In 1994, when importation was liberalized, a benchmark price was established to determine the duty on imported refined sugar. The benchmark price regime identified a price (related to refined sugar prices in the major international markets) below which any refined sugar entering Jamaica would attract an Additional Stamp Duty to equate it with this price. Due to international price volatility and deliberate under-invoicing by importers, the system was replaced with a two-tiered method of tariff determination. The two-tiered tariff system accommodated duty-free entry of refined sugar for manufacturing purposes, while refined sugar for the consumer (retail) market attracted a 40 percent Common External Tariff plus an Additional Stamp Duty of 63 percent. Due to the entry of duty-free sugar (imported for manufacturing) to the consumer market and the resulting disruption in domestic demand for brown sugar, the GOJ has proposed an amendment to its importation policy. The new proposal would grant import licenses to large manufacturers and the JCPS. Small and medium-sized manufacturers would source refined sugar from the JCPS at duty-free rate plus a marginal mark-up. Retail distribution of refined sugar would be the responsibility of the JCPS.